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## **The Farm Situation and the Republican Relief Plan**

### **\$4 Billion in Aid Contained in Agriculture Spending Conference Report**

These have been tough times for American agriculture. Farm prices are as low today as they have been in many years. Farmers who have experienced large crop losses due to adverse weather are in dire straits even if they purchased federal crop insurance. These producers have little crop to sell, and what they do sell will be at below-normal prices. Crop insurance indemnities will help, but will make up only a portion of the lost income.

On the Senate floor today is the agriculture appropriations conference report, which contains a \$4.0 billion emergency farm relief package that includes \$2.35 billion for crop loss assistance and \$1.65 billion in market loss payments to help farmers cope with low prices.

Yet, the Democrats argue that the Republican plan is insufficient aid for a farm economy which they say is on the brink of a depression. Democrats have said that unless we replace the \$4 billion Republican plan with their \$7-to-\$8-billion plan that uncaps marketing assistance loan rates, they will attempt to delay and defeat the agriculture appropriations bill.

### **Not on the Brink of a Depression**

Is agriculture really on the brink of a depression? The facts say no. Today's economic environment is not the same as the "farm crisis" years of the 1980s, not even close. To begin with, the 1990s have been profitable years for many farmers and ranchers while farm asset gains of the 1970s and early 1980s were due largely to inflation. The American Bankers Association reports that farmers have used recent-year profits to pay down debt and build equity. Total farm debt was around \$166 billion at the end of 1997 and is projected to total \$172 billion at the end of this year. The peak debt level came in 1984 at nearly \$200 billion, a time when the value of farm assets was far smaller than it is today.

Moreover, farmers and ranchers currently have the strongest asset position they have ever had. The average debt-to-asset ratio at the end of 1997 was 15 percent, down from 23 percent in 1984. And, according to the ABA, the average U.S. farm or ranch has 85 percent owner equity in the business, the highest in history.

Of course, this year and next will not be easy for farmers. Reduced income means that the balance sheet for many farm businesses will deteriorate. Some farmers will take on more

debt or will need to restructure existing repayment obligations. Land values are also likely to drop in many areas after a steady rise throughout most of the 1990s. But, the bottom line is that most farmers and ranchers are currently well positioned to weather a temporary reduction in cash income. Low and stable interest rates will help farmers make needed adjustments easier than would otherwise be the case. In contrast, the farm crisis of the 1980s was, in part, driven by very high interest rates, which in some cases reached 20 percent.

## **Federal Assistance to Farmers and the Relief Plan**

This Republican emergency farm relief package, combined with assistance already available through the 1996 farm bill, provides a very substantial federal response to the economic situation facing farmers.

USDA now estimates 1998 net farm income at \$42.0 billion. This is down \$500 million from the September estimate and is 15.8 percent below last year's relatively high level of \$49.8 billion. More importantly, it is 7.2 percent below the \$45.2 billion average farm income level for the 1990s.

The official farm income estimate contains federal payments to farmers totaling \$8.3 billion. This amount includes 1998 crop Freedom to Farm payments, some accelerated 1999 crop Freedom to Farm payments that farmers can, at their option, receive this fall, and about \$0.6 billion in projected 1998 crop marketing loan gains and loan deficiency payments (LDPs). In addition, USDA expects to pay farmers federal crop insurance indemnity payments totaling \$1 billion more than farmers paid premiums for losses incurred on their 1998 insured crops. All of this assistance flows out of the existing programs authorized by the 1996 farm bill. But there is more.

Federal assistance to farmers under existing programs will be substantially more than USDA officially estimates. The Department's Farm Service Agency unofficially estimates that 1998 crop marketing loan gains and LDPs will total \$4.2 billion, \$3.6 billion more than the amount contained in USDA's official farm income forecast. Economists at the Department's Economic Research Service, responsible for estimating farm income, are already preparing to raise next month's 1998 farm income forecast by \$2 billion to \$3 billion due to larger expected loan deficiency payments this fall.

The Republican emergency relief plan would provide \$1.65 billion more in market loss payments and \$2.35 billion more in disaster payments, an additional infusion of \$4.0 billion. This additional \$7.6 billion will help maintain 1998 net farm income at a level higher than the average for the 1990s and close to the high level of 1997.

While many farmers and rural areas are in distress, the large new cash payments demonstrate Republican determination to support farm income without rolling back the market-oriented policies of the FAIR Act.

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